

CITY OF ARLINGTON
Snohomish County, Washington
January 1, 1994 Through December 31, 1994

Schedule Of Federal Findings

1. City Officials Should Receive Fair Market Value For Airport Property And Utilize Revenues For Airport Purposes

The U.S. Airport and Airway Improvement Act of 1982 (AAIA), as amended, requires that the city: (1) maintain a fee and rental structure designed to make the airport as self-sustaining as possible, and (2) restrict the use of airport-generated revenue to airport capital and operating costs. Our tests of U.S. Department of Transportation, Federal Aviation Administration (FAA) grant assistance provided to the City of Arlington disclosed that the city did not comply with these requirements. The Airport Fund did not receive approximately \$120,000 in rental income during the period from 1993 through 1994, and airport revenue was used to support approximately \$482,000 in General Fund expenditures without sufficient support during this period. City officials have been informed by U.S. Department of Transportation, Office of Inspector General auditors, who have also audited this activity, that they may require the city to reimburse the Airport Fund for costs which cannot be adequately documented and supported.

AAIA Section 511(a)(9) and Assurance Number 24, included with the grant agreements from the FAA, requires the city maintain a fee and rental structure which makes the airport as self-sustaining as possible. Additionally, FAA Order 5190.6A, Airport Compliance Requirements, Paragraph 4-18f(1), requires that when the city's airport property is utilized for nonaviation use, it must produce income for the airport at fair market value (FMV) and be available to meet airport expenses. Also, such property may not be rented at a discount to support community nonprofit organizations or subsidized nonairport objectives.

We determined the city did not receive FMV for nearly 20 acres of airport property having an annual FMV of approximately \$75,000. The property was used for other municipal purposes and rented at a discount to support a nonprofit organization.

Officials thought the use of the property was allowable because FAA personnel had observed the use of the property and because the use mitigates some of the impact on the community from the effect of development at the airport.

AAIA Section 511(a)(12), requires that all revenue generated by the city's airport be expended for the capital or operating costs of the airport that are directly and substantially related to the actual air transportation of passengers or property. FAA Order 5190.6A, Paragraph 4-20a(2)(c)(ii), states that clearly supportable and documented charges made by a governmental entity to reimburse that entity for payments of capital or operating costs of the airport may be allowed, but any charge must be supported by documented evidence. Also, that a flat payment "in-lieu-of taxes" without such documentation is not acceptable.

The city was unable to provide sufficient documentation to justify that 1993 and 1994 administrative charges assessed the Airport Fund, or the "in-lieu-of" tax payments for fire

and police service charges were airport operating costs, as described below:

The city assessed the Airport Fund approximately \$110,500 in administrative charges determined to be the airport's share of the city's overhead expenses, such as payroll, accounting, and purchasing expenses. However, these charges were not supported.

The city assessed the airport fund \$245,412 and \$126,081, respectively, for police and fire protection. These "in-lieu-of" tax payments were the city's estimate of the cost of police and fire protection for the airport. However, the city was unable to document the charge reflected actual police and fire costs.

In total, the city had unsupported assessments against airport generated revenues amounting to approximately \$482,000. Officials charged the airport for the services because they thought the charges were a fair allocation of actual costs.

As a result of these conditions, we are questioning the unsupported costs and qualifying our opinion on the city's financial statements. The conditions could also jeopardize future federal assistance funding.

We recommend that city officials:

- a. Establish and implement procedures that ensure the airport receives fair market value for airport property.
- b. Establish and implement procedures to ensure airport generated revenues are properly used.
- c. Reimburse the airport fund for any portion of the \$482,000 of questioned costs identified in this report that cannot be adequately documented and supported.